

**LAWRENCE COUNTY SCHOOL DISTRICT**

**BASIC FINANCIAL STATEMENTS,  
SUPPLEMENTARY INFORMATION,  
AND INDEPENDENT AUDITOR'S REPORTS**

Year ended June 30, 2003

*Daniel S. Howard, P.S.C.  
Certified Public Accountant  
Louisa, Kentucky*

# LAWRENCE COUNTY SCHOOL DISTRICT

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**INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Education  
Lawrence County School District  
Louisa, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lawrence County School District as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract - General Audit Requirements*, *Appendix II of the Independent Auditor's Contract - State Audit Requirements*, and *Appendix III of the Independent Auditor's Contract - Electronic Submission*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lawrence County School District as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 28, 2003, on our consideration of Lawrence County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note B, the District has implemented a new financial reporting model, as required by the provisions of GASB No. 34, *Basic financial Statements-and Management's Discussion and Analysis-for State and Local governments*, as of June 30, 2003.

The management's discussion and analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Lawrence County School District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lawrence County's School District's basic financial statements. The introductory section, and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

November 28, 2003

**LAWRENCE COUNTY SCHOOL DISTRICT - LOUISA, KY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2003**

As management of the Lawrence County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

**FINANCIAL HIGHLIGHTS**

- The beginning cash balance for the District was \$4,944,151.
- The ending cash balance for the District was \$6,824,696, however, unexpended bond sale proceeds were \$1,818,596 of this balance.
- The Board of Education initiated a major construction project for renovation of the Lawrence County High School. A total of \$2,315,000 in bonds was issued for the project with \$1,410,936 coming from local bond sales and \$904,064 from the State SFCC bond sale.
- Construction of a Fitness-Wellness Center was initiated with funds provided by the Department For Local Government with an estimated completion cost of \$200,000.
- The General Fund had \$12,020,727 in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. Excluding inter-fund transfers, there was \$11,931,248 in General Fund expenditures.
- The fundable average daily attendance and membership decreased again for the fourth straight year resulting in decreased state funding levels in the general fund.
- Bonds are issued as the district renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. The District's total debt increased by \$1,868,000 during the current fiscal year. As of the date of this report the District's current bonding potential is between \$800,000 and \$1.2 million. The District's credit rating as stated in Moody's Rating Service is Aa 3.
- The District remains committed to maintaining an excellent fleet of buses. The District did not purchase any new buses during this fiscal year. To maintain our goal of purchasing four buses per year, the budget impact would be an approximate \$260,000 increase in expenditures of transportation.

## OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 8-9 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our vending and food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10-19 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20-36 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$14.8 million as of June 30, 2003.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

### **Net Assets for the period ending June 30, 2003**

The current year's financial statements are dramatically different from past years as a result of implementing GASB 34. Attempting to compare this year's data with last year would be misleading to the reader however the district looks forward to offering comparative data in the future.

Current Assets	\$ 7,794,629
Noncurrent Assets	<u>21,335,257</u>
<b>Total Assets</b>	<b>\$ 29,129,886</b>
Current Liabilities	\$ 1,736,271
Noncurrent Liabilities	<u>12,583,183</u>
<b>Total Liabilities</b>	<b>\$ 14,319,454</b>
Net Assets	
Investment in capital assets (net of debt)	\$ 8,781,257
Restricted	2,418,809
Unreserved Fund Balance	<u>3,610,366</u>
<b>Total Net Assets</b>	<b>\$ 14,810,432</b>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

The district implemented GASB 34 and recorded fixed assets and debt for the first time.

### **Comments on Budget Comparisons**

- The District's total revenues for the fiscal year ended June 30, 2003, net of Interfund transfers, were \$20.6 million.
- General fund budget compared to actual revenue varied slightly from line item to line item with the ending actual balance being \$401,402 more than budget or approximately three percentage points.
- The total cost of all programs and services was \$17.9 million net of debt service.
- General fund budget expenditures to actual varied significantly in district administrative support (\$1,031,056). This resulted from the board's established contingency. Additionally, plant operations and maintenance varied significantly (\$1,061,103) which included funds budgeted toward the five year facility plan. Student transportation actual expenditure varied (\$374,653) from budget because buses budgeted were not purchased.



The following table presents a district wide summary of revenue and expense for the fiscal year ended June 30, 2003.

**Revenue:**

Charges for services	\$ 285,791
Operating Grants & Contributions	4,652,126
Capital Grants & Contributions	317,822
Taxes	2,475,495
State & formula grants	13,101,896
Investment earnings	36,452
Miscellaneous	69,815
<b>Total revenue</b>	<b>20,939,397</b>

**Expenses:**

Instruction	11,715,597
Support services:	6,057,661
Facilities acquisitions & construction	237,377
Site improvement	2,658
Interest on long term debt	497,715
Depreciation	1,009,229
Food service expense	1,134,554
<b>Total expense</b>	<b>20,654,791</b>

**Revenues in excess of expenses** \$ 284,606

**General Fund Revenue**

The majority of revenue was derived from state funding making up 80% with local taxes making up 19% of total revenue.

**Budget Allocation**

Site Based Decision Making Councils expended \$6.5 million of the general fund budget. The remaining general fund was expended by special needs which spent \$1.1 million, transportation cost were \$.9 million, plant operations \$1.8 million, and other support services \$1.6 million.

**School Allocation**

Regular Instruction accounts for 67% of the school level expenditures.

## **BUDGETARY IMPLICATIONS**

In Kentucky the public school fiscal year is July 1-June 30; other programs, i.e. some federal operate on a different fiscal calendar, but are reflected in the district overall budget. By law the budget must have a minimum 2% contingency. The district adopted a budget with \$1,004,686 in contingency (5%). The beginning cash balance for beginning the fiscal year is \$4,944,151. Significant Board action that impacts the finances include a salary increase of 2.7% for certified and classified personnel.

Superintendent Eddie Michael resigned during the year with resignation to be effective June 30, 2003. In May of 2003 Jeff May was hired as Superintendent effective July 1, 2003.

Questions regarding this report should be directed to the Superintendent, Jeff May (606) 638-9671 or to Joe R. Hewlett, Assistant Superintendent-Finance (606) 638-9671 or by mail at Bulldog Lane, P.O. Box 607, Louisa, Kentucky 41230.

**LAWRENCE COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
Year ended June 30, 2003

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Lawrence County Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Lawrence County Board of Education ("District"). The District receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Lawrence County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Lawrence County Board of Education Finance Corporation – On June 17, 1991, the Lawrence County, Kentucky, Board of Education resolved to authorize the establishment of the Lawrence County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The members of the Lawrence County Board of Education also comprise the Corporation's Board of Directors.

**LAWRENCE COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
Year ended June 30, 2003

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.

**LAWRENCE COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
Year ended June 30, 2003

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on page 38. This is a major fund of the District.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
  2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the district's facility plan.
  3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (D) Debt Service Funds  
The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

**LAWRENCE COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
Year ended June 30, 2003

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

II. Proprietary Fund Type (Enterprise Fund) - continued

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

**LAWRENCE COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
Year ended June 30, 2003

Basis of Accounting - continued

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2003, to finance the General Fund operations were \$.423 per \$100 valuation for property, and \$.154 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

**LAWRENCE COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
 Year ended June 30, 2003

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets, except land, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	12 years
Other	7-10 years

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables". These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.



**LAWRENCE COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
Year ended June 30, 2003

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the vesting payment method. The District estimates it accrued sick leave liability based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

**LAWRENCE COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
Year ended June 30, 2003

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Inventories

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the first-in, first-out method.

Prepaid Assets

On government-wide financial statements, payments made that will benefit periods beyond June 30, 2003 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

On fund financial statements, expenditures for insurance and similar services extending over more than one accounting period are accounted for as expenditures of the period of acquisition.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories and fixed assets.

**LAWRENCE COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
Year ended June 30, 2003

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

**NOTE B – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE**

For the fiscal year ended June 30, 2003, the District implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments".

GASB 34 creates new basic financial statements for reporting on the School District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

**LAWRENCE COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
Year ended June 30, 2003

**NOTE B – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE – CONTINUED**

The government-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental programs reflects the change in fund balance for governmental funds at June 30, 2002, caused by the conversion to the accrual basis of accounting.

The School District made a change in accounting principles during the year. For governmental activities, they changed the method of recording the current portion of the accumulated sick leave liability. This change brings the District's funds into compliance with the fund classifications and requirements of GASB 34.

Restatement of Fund Balance – The restatement for the above change and the transition from governmental fund balance to net assets of the governmental activities is presented below:

	<u>General</u>	<u>Special Revenue</u>	<u>Construction Fund</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balance June 30, 2002	\$ 3,821,372	\$ 0	\$ 594,667	\$ 107,707	\$ 4,523,746
Record beginning accumulated sick leave	(108,467)	0	0	0	(108,467)
Close out 1994 bond retirement fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>(636)</u>	<u>(636)</u>
Adjusted Fund Balance, June 30, 2002	\$ <u>3,712,905</u>	\$ <u>0</u>	\$ <u>594,667</u>	\$ <u>107,071</u>	\$ 4,414,643
GASB 34 Adjustments:					
Capital Assets-Net of Depreciation					20,979,752
Long-Term Liabilities					(10,686,000)
Accumulated sick leave - long-term portion					(555,245)
Prepaid expenses					176,519
Accrued interest payable					<u>(136,590)</u>
Governmental Activities Net Assets, June 30, 2002					\$ <u>14,193,079</u>

**LAWRENCE COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
Year ended June 30, 2003

**NOTE B – CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE – CONTINUED**

The District had a fixed asset inventory taken to comply with GASB 34. Changes as a result of the GASB 34 implementation are as follows:

	<u>Food Service</u>
Fund Balance, June 30, 2002	\$ 198,869
Fixed assets	<u>133,878</u>
Adjusted Fund Balance, June 30, 2002	\$ <u>332,747</u>

As proprietary funds are already on the accrual basis, no adjustments are necessary for the Statement of Net Assets.

**NOTE C – ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE D – CASH AND CASH EQUIVALENTS**

At year-end, the carrying amount of the District's total cash and cash equivalents was \$6,824,696. Of the total cash balance, \$125,534 was covered by Federal Depository insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2003 consisted of the following:

	<u>Bank Balance</u>	<u>Book Balance</u>
Inez Deposit Bank, FSB	\$ 7,302,661	\$ 6,800,072
Peoples Security Bank	<u>25,534</u>	<u>24,624</u>
	\$ <u>7,328,195</u>	\$ <u>6,824,696</u>

Breakdown per financial statements:

Governmental funds	\$ 6,571,779
Proprietary funds	120,559
Agency funds	<u>132,358</u>
	\$ <u>6,824,696</u>

**LAWRENCE COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
Year ended June 30, 2003

**NOTE E – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance			Balance
<u>Governmental Activities</u>	<u>July 1, 2002</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2003</u>
Land	\$ 246,150	\$ -	\$ -	\$ 246,150
Buildings and improvements	23,746,210	155,375	-	23,901,585
Technology equipment	2,065,196	170,526	-	2,235,722
Vehicles	2,687,964	31,829	70,514	2,649,279
General equipment	871,069	138,742	-	1,009,811
Construction in progress	-	757,315	-	757,315
Totals at historical cost	<u>29,616,589</u>	<u>1,253,787</u>	<u>70,514</u>	<u>30,799,862</u>
Less: accumulated depreciation				
Buildings and improvements	5,135,132	468,601	-	5,603,733
Technology equipment	1,486,015	286,600	-	1,772,615
Vehicles	1,734,913	182,473	70,514	1,846,872
General equipment	<u>280,777</u>	<u>71,555</u>		<u>352,332</u>
Total accumulated depreciation	<u>8,636,837</u>	<u>1,009,229</u>	<u>70,514</u>	<u>9,575,552</u>
Governmental Activities				
Capital Assets - Net	\$ <u>20,979,752</u>	\$ <u>244,558</u>	\$ <u>-</u>	\$ <u>21,224,310</u>
<u>Business-Type Activities</u>				
Food service equipment	\$ 613,925	\$ 2,400	\$ -	\$ 616,325
Totals at historical cost	<u>613,925</u>	<u>2,400</u>	<u>-</u>	<u>616,325</u>
Less: accumulated depreciation				
Food service equipment	<u>480,047</u>	<u>25,331</u>	<u>-</u>	<u>505,378</u>
Total accumulated depreciation	<u>480,047</u>	<u>25,331</u>	<u>-</u>	<u>505,378</u>
Business-Type Activities				
Capital Assets - Net	\$ <u>133,878</u>	\$ <u>(22,931)</u>	\$ <u>-</u>	\$ <u>110,947</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".



**LAWRENCE COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
Year ended June 30, 2003

**NOTE F – BONDED DEBT AND LEASE OBLIGATIONS**

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
1993	\$ 1,695,000	3.750% - 4.000%
1998	597,820	4.000% - 5.400%
1999	5,280,000	3.250% - 4.250%
2000	5,200,000	5.000% - 5.250%
2003	2,315,000	4.000% - 4.125%

The District, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Lawrence County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In connection with the school revenue bonds issued after May 1, 1996 the District entered into "participation agreements" with the School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

The following is a summary of the bonded debt transactions of the Lawrence County School District for the year ended June 30, 2003.

Bonded debt July 1, 2002	\$ 10,686,000
New debt issued (2003 Bond Issue)	2,315,000
Scheduled principal payments	( <u>447,000</u> )
Bonded debt June 30, 2003	<u>\$ 12,554,000</u>

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2003 for debt service (principal and interest) are as follows:





**LAWRENCE COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
Year ended June 30, 2003

**NOTE F – BONDED DEBT AND LEASE OBLIGATIONS - CONTINUED**

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2003-04	\$ 508,000	\$ 558,276	\$ 274,812	\$ 791,465
2004-05	525,000	537,660	271,886	790,774
2005-06	546,000	515,928	271,884	790,043
2006-07	567,000	492,957	271,885	788,072
2007-08	593,000	468,705	271,885	789,819
2008-09	615,000	442,912	271,887	786,025
2009-10	641,000	415,837	271,885	784,952
2010-11	673,000	387,307	271,885	788,422
2011-12	700,000	357,113	271,885	785,228
2012-13	731,000	325,143	271,886	784,258
2013-14	768,000	291,269	271,886	787,383
2014-15	790,000	255,824	259,669	786,155
2015-16	682,000	223,923	229,960	675,963
2016-17	715,000	189,886	229,960	674,926
2017-18	705,000	154,063	182,323	676,740
2018-19	740,000	118,956	182,613	676,344
2019-20	775,000	82,006	182,392	674,615
2020-21	780,000	44,331	149,701	674,630
2021-22	245,000	20,625	66,469	199,156
2021-23	<u>255,000</u>	<u>10,519</u>	<u>66,469</u>	<u>199,050</u>
<u>TOTALS</u>	<u>\$ 12,554,000</u>	<u>\$ 5,893,241</u>	<u>\$ 4,543,222</u>	<u>\$ 13,904,019</u>

**NOTE G – COMMITMENTS UNDER NONCAPITALIZED LEASES**

The District entered into a lease on February 1, 2000 for one acre of property located behind the Fallsburg Elementary School. The term of the lease is five years with an annual lease amount of \$1,650. The District has the option to renew at the end of the lease.

Commitments under operating lease agreements provide the minimum future rental payments as of June 30, 2003 as follows:

Year ending June 30:

2004	1,650
2005	<u>1,650</u>
Total minimum payments	<u>\$ 3,300</u>

Rent expense for the year ended June 30, 2003 was \$1,650.

**LAWRENCE COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
Year ended June 30, 2003

**NOTE H – RETIREMENT PLANS**

The Lawrence County Schools contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Ky 40601.

Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring a four (4) year college certification by KY Department of Education (KDE).

The Lawrence County School District's total payroll for the year was \$12,261,372. The payroll for employees covered under KTRS was \$9,425,789. For the year ended June 30, 2003, the Commonwealth contributed \$1,119,027 to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2003 were \$116,223, which represents those employees covered by federal programs. Employees contributed \$928,912 for the year ended June 30, 2003.

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System (CERS), a cost sharing, multiple-employer, public employers retirement system. Funding for the plan is provided through payroll withholding of 5.00% and a district contribution of 6.34% of the employee's total compensation subject to contribution. The District's contribution for CERS for the year ended June 30, 2003 was \$286,366, which consisted of \$160,101 from the District and \$126,265 from the employees. Benefits under the plan will vary based on final compensation, years of service and other factors as fully described in the Plan Documents.

Additional information and historical trend information can be obtained from the Annual Financial Report issued by the Kentucky Retirement System.

**NOTE I – COMMITMENTS**

Subsequent to the year ended June 30, 2003, the Board entered into construction contracts totaling \$2,699,663 for the renovation of the Lawrence County High School.

**LAWRENCE COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
Year ended June 30, 2003

**NOTE J - CONTINGENCIES**

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

**NOTE K - LITIGATION**

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress.

**NOTE L - INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which includes Workers' Compensation insurance.

**NOTE M - RISK MANAGEMENT**

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

**LAWRENCE COUNTY SCHOOL DISTRICT**  
**NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED**  
Year ended June 30, 2003

**NOTE M - RISK MANAGEMENT - CONTINUED**

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE N - DEFICIT OPERATING BALANCES**

There are no funds of the District that have a deficit fund balance.

**NOTE O - COBRA**

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

**NOTE P - TRANSFER OF FUNDS**

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Construction	Construction	\$ 42,391
Matching	General	Special Revenue	Technology Match	37,934
Operating	Special Revenue	Construction	Construction	250,000
Operating	Capital Outlay	Debt Service	Debt Service	202,614
Operating	Building	Debt Service	Debt Service	522,200
Operating	Food Service	General	Indirect Costs	79,857

**NOTE Q – INTERFUND RECEIVABLES AND PAYABLES**

There were no interfund balances at June 30, 2003.

**NOTE R – ON-BEHALF PAYMENTS**

The following on-behalf payments for employee fringe benefits and retirement were made by the State for the Lawrence County School District during the year:

- Life insurance & administrative fees \$32,725
- Health insurance \$1,286,534
- Flex payments \$303,498
- KTRS employer contributions \$1,235,250
- Reimbursement from special revenue fund for retirement (\$116,223)
- Reimbursement from special revenue fund for fringe benefits (\$147,884)

The net amount of these payments was \$2,593,900 and was recorded as revenue under State Aid-Formula Grants and as an offsetting expense for each salary function on the Government-wide Statement of Activities. There were no entries recorded on the fund level financial statements.



## **SUPPLEMENTARY INFORMATION**

**LAWRENCE COUNTY SCHOOL DISTRICT**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the year ended June 30, 2003

**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Lawrence County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**NOTE B – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.



***Daniel S. Howard, P.S.C.***

***Certified Public Accountant***

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Louisa, Kentucky 41230  
Phone (606) 638-4470

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Members of the Board of Education  
Lawrence County School District  
Louisa, Kentucky

We have audited the basic financial statements of the Lawrence County School District as of and for the year ended June 30, 2003 and have issued our report thereon dated November 28, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether Lawrence County School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Lawrence County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Lawrence County School District in a separate letter dated November 28, 2003.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Lawrence County School District, the Kentucky Department of Education management and federal awarding agencies and pass-through entities. However this report is a matter of public record and its distribution is not limited.

November 28, 2003

***Daniel S. Howard, P.S.C.***

***Certified Public Accountant***

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Members of the Board of Education  
Lawrence County Board of Education  
Louisa, Kentucky

**Compliance**

We have audited the compliance of Lawrence County School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. Lawrence County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lawrence County School District's management. Our responsibility is to express an opinion on Lawrence County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lawrence County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lawrence County School District's compliance with those requirements.

In our opinion, Lawrence County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

**Internal Control Over Compliance**

The management of Lawrence County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Lawrence County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirement of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Lawrence County School District, the Kentucky Department of Education management and federal awarding agencies and pass-through entities. However this report is a matter of public record and its distribution is not limited.

November 28, 2003

**LAWRENCE COUNTY SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

Section 1: Summary Of Auditor's Results

1. An unqualified opinion was issued on the basic financial statements.
2. The audit of the basic financial statements did not disclose any material weaknesses in internal control.
3. The audit did not disclose any noncompliance which is material to the basic financial statements.
4. The audit did not disclose any material weaknesses in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit did not disclose any audit findings which are required to be reported under section \_\_\_\_\_.510(a) of OMB Circular A-133.
7. The major programs were: (1) National School Lunch Programs CFDA Number 10.555; 10.553; 10.559 (2) Title I CFDA Number 84.010 (3) IDEA-B CFDA 84.207 (4) IDEA-B-  
P CFDA 84.173 (5) 21<sup>st</sup> Century Grant CFDA 84.287
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee qualified as a low-risk auditee.

Section 2: Reportable Conditions On Compliance And Internal Control Over Financial Reporting In Accordance With Government Auditing Standards

1. No new findings.

Section 3: Reportable Conditions On Compliance With Requirements Applicable To Each Major Program And Internal Control Over Compliance In Accordance With OMB Circular A-133.

- 
1. No new findings.

**LAWRENCE COUNTY SCHOOL SYSTEM**

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AUDITEE'S SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Audit findings

02-1: KRS 424.220-Publication of Annual Financial Statement

The Annual Financial Statement for the year ended June 30, 2003 was published in accordance with KRS 424.220.

02-2 RED BOOK-Fund Raiser Worksheets for Activity Funds

The District has improved in this area however this requirement still needs to be reinforced.

02-3 RED BOOK-Booster Organizations

Booster clubs are submitting annual financial statements to the principals however they are not being timely filed or logged when received.

***Daniel S. Howard, P.S.C.***  
***Certified Public Accountant***

P.O. Box 809  
Rt. 2565 South  
Louisa, Kentucky 41230  
Phone (606) 638-4470

November 28, 2003

Members of the Board of Education  
Lawrence County School District  
Louisa, Kentucky

In planning and performing our audit of the financial statements of Lawrence County School District for the year ended June 30, 2003, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of instances that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated November 28, 2003 contains our report on reportable conditions and material weaknesses in the District's internal control structure. This letter does not affect our report dated November 28, 2003, on the financial statements of the Lawrence County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Respectfully,

Daniel S. Howard, P.S.C.  
Certified Public Accountant





**LAWRENCE COUNTY SCHOOL DISTRICT**  
**MANAGEMENT LETTER POINTS**  
**FOR THE YEAR ENDED JUNE 30, 2003**

**STATUS OF PRIOR YEARS FINDINGS:**

- Prior years findings have been addressed and corrective action taken.

**CURRENT YEAR FINDINGS:**

- The accounting department has made improvements in training people to back up other job duties however concerning payroll, as of the date of this letter, only one person is fully trained and able to run payroll.

Managements response: Another person is in training for the payroll function however they are not currently qualified to take over that job.

